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As I sell

THE COST OF GOVERNMENT AND THE COST OF HOUSING

THE National Association of Real Estate Boards is under indictment for conspiring to increase the cost of housing. It has been singled out for attack time and time again by the Administration as a vicious and powerful lobby, responsible for the most of the ills in housing.

This, of course, is not true. Real estate brokers are no more responsible for the high or low cost of housing than are stock brokers for the high or low cost of stocks. The price of anything is fixed in the long run by the relationship of supply and demand. Rent control, by making real estate unprofitable for the small landlord, has caused him to sell his property on a scarcity market with the eviction of his tenants as the eventual result. These tenants, unable to find other property owners willing to rent at the frozen rentals, have had to buy in a scarcity market at scarcity prices. As a result the percentage of owner occupants has increased greatly in all cities and the number of tenants has declined. These tenants who have been forced to buy to get shelter are the primary cause of the great increase in demand and, therefore, rent control, which forced them into the market, must take a large share of the blame for the excessive rise in market prices. When the market price of many pieces of residential real estate has doubled it is the height of economic illiteracy to blame the broker who collects 5 per cent of the selling price as the cause of the increase.

It is an old trick of politicians to detract attention from their own failures by pointing the finger of blame at others. This is particularly effective when the group singled out for attack has no immediate power to remedy the situation for which they are being blamed.

Regardless of claims and counter-claims the fact remains that the Bureau of Labor Statistics' index of residential rents is still 14 per cent below the 1921-1938 average. The eighteen years comprising this base is the average length of a complete real estate cycle and includes nine good years and nine bad years. Wages are more than 100 per cent above the average of 1921 to 1938.

Examining the problem from a slightly different angle, let us study the changes in the cost of housing in relationship to the changes in the cost of government.

When we speak of the cost of housing there are probably a number of different concepts that are confused in the term. In the study in this bulletin we are considering the cost of housing as the total housing expenditures made by all persons in the population for the period from 1933 to the present. By housing expenditures we mean all amounts paid in rent on rented dwellings, the rental value of all owned dwellings (both

urban and rural), the amounts paid in rent for hotel rooms, tourist cabins, clubs, etc. These figures are based on compilations of the United States Department of Commerce.

If all rents had been frozen completely, this line showing housing expenditures would still have shown considerable increase over a period of years, as the number of individuals either paying rent or owning houses has increased during the period, as has the number of dwelling units in our cities and on our farms. Even with those additions, total housing expenditures in dollars in the United States are only 70 per cent above the 1933 level.

How does this compare with the cost of the Federal government during the same period?

In order to get a fair comparison it is necessary, of course, to deduct many items from the cost of government which have been caused by the Second World War. The annual interest on the national debt has increased from \$689 million in 1933 to \$4,958 million in 1947. Clearly, this increase cannot be blamed on the present administration and no amount of economy in government will decrease the current interest load. Naturally, we have deducted all military expenditures for the Army and Navy. We have also deducted all payments to foreign countries such as the \$2,050 million credit to the United Kingdom, the American contribution to the Bretton Woods International Bank and International Monetary Fund and the capital stock of the Export-Import Bank of Washington. In 1947 \$3,594 million worth of benefits under the Servicemen's Readjustment Act have been deducted and, in addition, \$361 million for veterans' housing. The remaining government expenditures should be the cost of the Federal government minus, as nearly as possible, the costs brought about directly by the Second World War.

The chart opposite shows a comparison of the increase in housing expenditures from 1933 to the present with the increase in the cost of the Federal government exclusive of all of the enumerated items. It will be noticed that while housing expenditures have increased 70 per cent (from 100 to 170), the increase in cost of government has been from 100 to 382, or four times the increase in the amount of the housing expenditures of the entire American people.

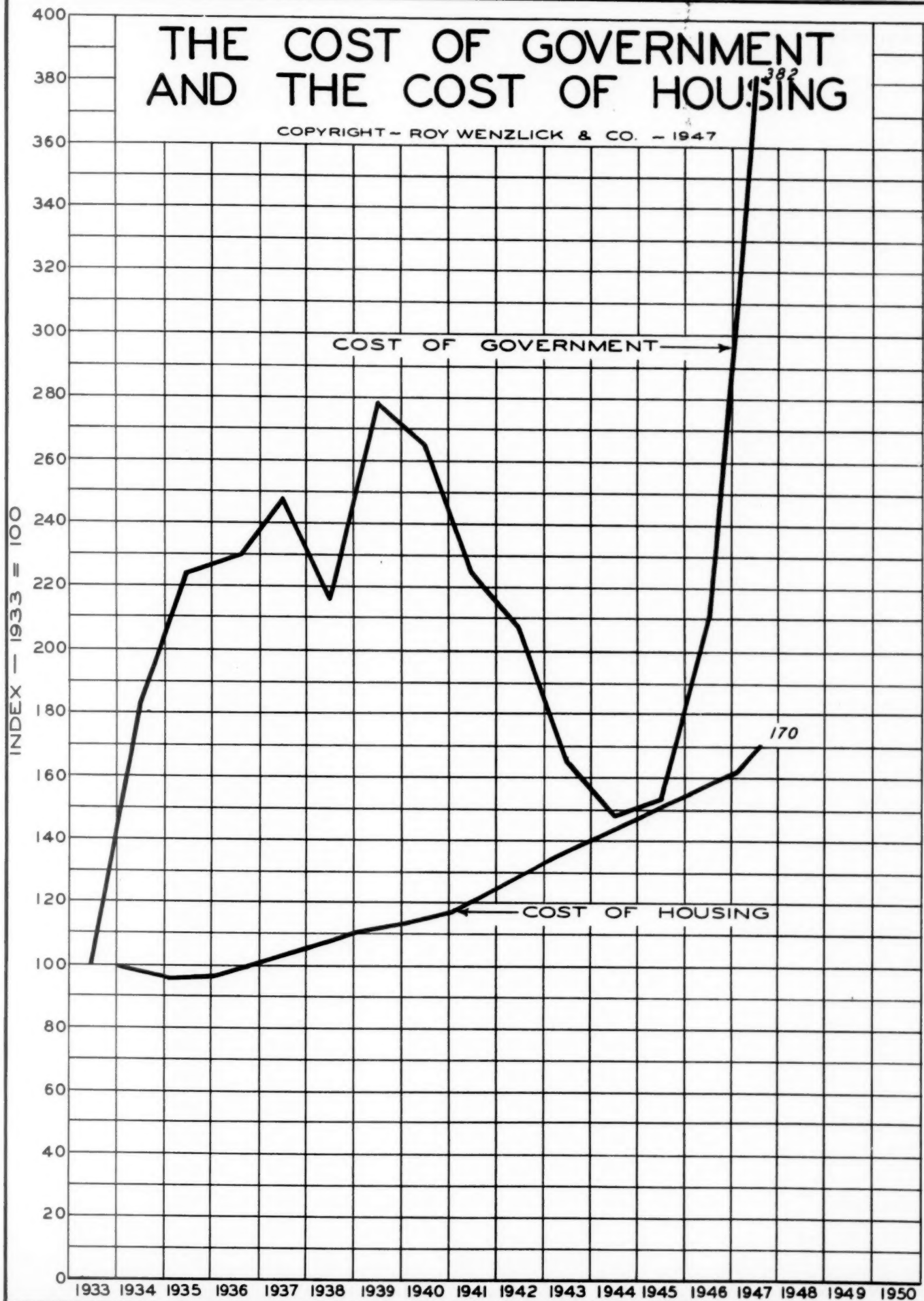
The increase in the cost of government is primarily due to an attempt to control the economy of the United States from Washington. During the past fourteen years we have attempted to set up a planned economy with officials in Washington to regulate and direct the intricate relationships of all types of business operations.

I have always maintained that a planned economy could be made to work, but only in a totalitarian state; it will never work in a democracy. I think the experience will be very similar to the experience in England where originally a little planning failed for lack of authority over unplanned phases of the economy. Each failure of the planned economy to work becomes an excuse for a request for additional power over some other field. Eventually, of course, a planned economy in order to be successful must even abridge the right of free speech because criticism of it will prevent its successful operation.

While a planned economy will work in a dictatorship, it will provide lower stand-

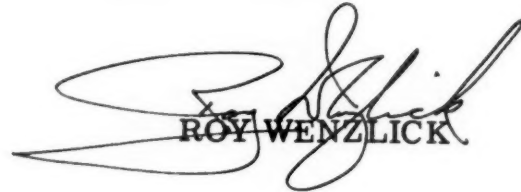
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ards of living than can be provided under free enterprise in a democracy.

At the time that the Constitution of the United States was being written, Adam Smith's book, An Inquiry Into the Nature and Causes of the Wealth of Nations, had just been published in England and was quite popular in America. It was written primarily as an attack on the planned economies of Europe, and the checks and balances in the American Constitution were placed there to prevent government planning of that type in this country. Unfortunately, in recent years we have strayed rather far from the ideas of the framers of the Constitution.



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